

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|   |                                   |   |                          |
|---|-----------------------------------|---|--------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                                   | Local Government Name<br><b>OGE MAW FIRE DEPARTMENT</b>         | County<br><b>OGE MAW</b> |
| Audit Date<br><b>12/31/2003</b>   | Opinion Date<br><b>11/22/2004</b> | Date Accountant Report Submitted to State:<br><b>12/22/2004</b> |                          |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

|  |                            |                    |                     |
|--|----------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>  |                            |                    |                     |
| Street Address<br><b>317 W HOUGHTON AVE, PO BOX 159</b>  | City<br><b>WEST BRANCH</b> | State<br><b>MI</b> | ZIP<br><b>48661</b> |
| Accountant Signature  <div style="float: right; font-size: small;">           Digitally signed by Stephenson, Gracik and Co., P.C.<br/>           DN: cn=Stephenson, Gracik and Co., P.C., c=US<br/>           Date: 2004.12.12 16:52:28 -0500<br/>           Reason: I am approving this document         </div> |                            |                    |                     |



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

OGEMAW FIRE DEPARTMENT  
OGEMAW COUNTY, MICHIGAN

AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2003 AND 2002

## I\_N\_D\_E\_X

### AUDITORS' REPORT

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# *Stephenson Gracik & Co., P.C.*

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-----  
Herman A Bertuleit, CPA

November 22, 2004

## Independent Auditors' Report

Members of the Fire Administration Board  
Ogemaw Fire Department  
Ogemaw County, Michigan

We have audited the accompanying general purpose financial statements of the Ogemaw Fire Department, Ogemaw County, Michigan, as of and for the years ended December 31, 2003 and 2002, as listed in the index. These general purpose financial statements are the responsibility of the Fire Department's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 2, the general purpose financial statements referred to in the first paragraph do not include the General Fixed Assets Account Group, which should be included to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the General Fixed Assets Account Group is not known.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Ogemaw Fire Department, Ogemaw County, Michigan, as of December 31, 2003 and 2002, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2004, on our consideration of the Ogemaw Fire Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Stephenson, Gracik & Co., P.C.*

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

BALANCE SHEETS  
December 31, 2003 and 2002

|  | <u>2003</u>       | <u>2002</u>       |
|--|-------------------|-------------------|
| <u>ASSETS</u>                          |                   |                   |
| Cash                                   | \$ 48,216         | \$ 43,911         |
| Certificates of deposit                | <u>104,745</u>    | <u>102,301</u>    |
| Total Assets                           | <u>\$ 152,961</u> | <u>\$ 146,212</u> |
| <br><u>LIABILITIES AND FUND EQUITY</u> |                   |                   |
| Liabilities                            | <u>\$ 0</u>       | <u>\$ 0</u>       |
| <u>Fund Equity</u>                     |                   |                   |
| Fund balance:                          |                   |                   |
| Designated for equipment               | 137,665           | 122,160           |
| Unreserved-undesignated                | <u>15,296</u>     | <u>24,052</u>     |
| Total fund equity                      | <u>152,961</u>    | <u>146,212</u>    |
| Total Liabilities and Fund Equity      | <u>\$ 152,961</u> | <u>\$ 146,212</u> |

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

STATEMENTS OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
For the Years Ended December 31, 2003 and 2002

|                                     | <u>2003</u>       | <u>2002</u>       |
|-------------------------------------|-------------------|-------------------|
| <u>Revenue</u>                      |                   |                   |
| Intergovernmental revenue           | \$ 112,222        | \$ 110,564        |
| Federal revenue                     | 130,081           | 0                 |
| State DNR grant                     | 0                 | 886               |
| Charges for services - fire runs    | 16,629            | 13,397            |
| Interest earnings                   | <u>3,424</u>      | <u>3,622</u>      |
| Total revenue                       | <u>262,356</u>    | <u>128,469</u>    |
| <u>Expenditures</u>                 |                   |                   |
| Current:                            |                   |                   |
| Public safety                       | 67,222            | 66,118            |
| Capital outlay                      | <u>188,385</u>    | <u>11,710</u>     |
| Total expenditures                  | <u>255,607</u>    | <u>77,828</u>     |
| Excess of revenue over expenditures | 6,749             | 50,641            |
| Fund balance - beginning of year    | <u>146,212</u>    | <u>95,571</u>     |
| Fund balance - end of year          | <u>\$ 152,961</u> | <u>\$ 146,212</u> |

The accompanying notes to financial statements are an integral part of this statement.

## OGEMAW FIRE DEPARTMENT

Ogemaw County, MichiganSTATEMENTS OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Years Ended December 31, 2003 and 2002

|   | 2003              |                   |  | 2002              |                   |  |
|---|-------------------|-------------------|--|-------------------|-------------------|--|
|   | Budget            | Actual            | Variance<br>Favorable<br>(Unfavorable) | Budget            | Actual            | Variance<br>Favorable<br>(Unfavorable) |
| <u>Revenue</u>                              |                   |                   |  |                   |                   |  |
| Intergovernmental revenue                   | \$ 112,222        | \$ 112,222        | \$ 0                                   | \$ 110,564        | \$ 110,564        | \$ 0                                   |
| Federal revenue                             | 130,000           | 130,081           | 81                                     | 0                 | 0                 | 0                                      |
| State DNR grant                             | 0                 | 0                 | 0                                      | 0                 | 886               | 886                                    |
| Charges for services - fire runs            | 17,000            | 16,629            | (371)                                  | 17,000            | 13,397            | (3,603)                                |
| Interest earnings                           | 3,000             | 3,424             | 424                                    | 3,300             | 3,622             | 322                                    |
| Total revenue                               | <u>262,222</u>    | <u>262,356</u>    | <u>134</u>                             | <u>130,864</u>    | <u>128,469</u>    | <u>(2,395)</u>                         |
| <u>Expenditures</u>                         |                   |                   |  |                   |                   |  |
| Current:                                    |                   |                   |  |                   |                   |  |
| Public safety                               | 70,200            | 67,222            | 2,978                                  | 70,950            | 66,118            | 4,832                                  |
| Capital outlay                              | 198,000           | 188,385           | 9,615                                  | 13,000            | 11,710            | 1,290                                  |
| Total expenditures                          | <u>268,200</u>    | <u>255,607</u>    | <u>12,593</u>                          | <u>83,950</u>     | <u>77,828</u>     | <u>6,122</u>                           |
| Excess of revenue over (under) expenditures | (5,978)           | 6,749             | 12,727                                 | 46,914            | 50,641            | 3,727                                  |
| Fund balance - beginning of year            | <u>146,212</u>    | <u>146,212</u>    | <u>0</u>                               | <u>95,571</u>     | <u>95,571</u>     | <u>0</u>                               |
| Fund balance - end of year                  | <u>\$ 140,234</u> | <u>\$ 152,961</u> | <u>\$ 12,727</u>                       | <u>\$ 142,485</u> | <u>\$ 146,212</u> | <u>\$ 3,727</u>                        |

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Operations

The Ogemaw Fire Department is a joint area Fire Board serving six governmental units - City of West Branch, Churchill Township, Edwards Township, Horton Township, Ogemaw Township and West Branch Township.

The Board consists of an executive from each government or a designated representative with one vote each. The accounting records are maintained by the Secretary-Treasurer. The Secretary-Treasurer is appointed by the Chairman.

The 2003 and 2002 pro-rata share of the budget as provided in the by-laws is calculated based on the state equalized value (SEV) of the municipalities.

| <u>Unit</u>          | <u>SEV</u>            |                       | <u>Percentage</u> |               |
|----------------------|-----------------------|-----------------------|-------------------|---------------|
|                      | <u>2003</u>           | <u>2002</u>           | <u>2003</u>       | <u>2002</u>   |
| City of West Branch  | \$ 62,165,950         | \$ 55,665,700         | 16.9%             | 16.8%         |
| Churchill Township   | 69,019,999            | 62,306,219            | 18.8              | 18.8          |
| Edwards Township     | 53,457,874            | 45,906,900            | 14.5              | 13.8          |
| Horton Township      | 34,094,953            | 30,435,344            | 9.3               | 9.2           |
| Ogemaw Township      | 45,481,031            | 43,385,511            | 12.4              | 13.1          |
| West Branch Township | <u>103,227,500</u>    | <u>93,799,100</u>     | <u>28.1</u>       | <u>28.3</u>   |
| Total                | <u>\$ 367,447,307</u> | <u>\$ 331,498,774</u> | <u>100.0%</u>     | <u>100.0%</u> |

The budget for 2003 and 2002 is shared as follows:

| <u>Unit</u>          | <u>2003</u>       | <u>2002</u>       |
|----------------------|-------------------|-------------------|
| City of West Branch  | \$ 18,986         | \$ 18,566         |
| Churchill Township   | 21,079            | 20,781            |
| Edwards Township     | 16,327            | 15,311            |
| Horton Township      | 10,413            | 10,151            |
| Ogemaw Township      | 13,890            | 14,470            |
| West Branch Township | <u>31,527</u>     | <u>31,285</u>     |
| Total                | <u>\$ 112,222</u> | <u>\$ 110,564</u> |

Upon dissolution of the Ogemaw Fire Department, all funds, special funds, equipment, land, buildings and assets belonging to the Department shall remain with any two or more of the original municipalities that agreed to continue under the terms of the contract on the effective date of the dissolution of the Department.



OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity

The financial statements of the Ogemaw Fire Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Fire Department's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Fire Department exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters of the entity.

C. Basis of Presentation

The financial activities of the Ogemaw Fire Department are recorded and reported as a Special Revenue Fund, described as follows:

Governmental Fund:

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Fire Department, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Fire Department receives value without directly giving equal value in return, include grants, entitlements and contributions. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Fire Department must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Fire Department on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan  
  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenditures are generally recognized when the related fund liability is incurred. Modifications in such method from the accrual basis are as follows:

- a. Normally, expenditures are not divided between years by the recording of prepaid expenses.
- b. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- c. Payrolls and other costs are recognized as incurred.

E. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

F. Budgets

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year end.

The Fire Board adopted the budgets for 2003 and 2002 at their January meetings held each year.

Budget amounts reported herein are as originally adopted, or as amended by the Fire Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Fire Board.

G. Fund Balances

Designated fund balance represents tentative plans for use of financial resources for future equipment purchases.

NOTE 2 - FUNDS OMITTED AND INCOMPLETE FUNDS

General Fixed Assets

The Ogemaw Fire Department does not maintain records for the General Fixed Assets. Therefore, this account group has not been included in the financial statements.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2003 and 2002

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits:

Deposits of the Fire Department are held at 1st Bank, West Branch, Michigan, in the name of the Ogemaw Fire Department. At December 31, 2003 and 2002, the carrying amounts of the Fire Department's deposits were classified as to risk as follows:

|                              | <u>Carrying Amount</u> |                   | <u>Bank Balance</u> |                   |
|------------------------------|------------------------|-------------------|---------------------|-------------------|
|                              | <u>2003</u>            | <u>2002</u>       | <u>2003</u>         | <u>2002</u>       |
| Insured (FDIC)               | \$ 100,588             | \$ 100,789        | \$ 101,537          | \$ 102,506        |
| Uninsured - uncollateralized | <u>52,373</u>          | <u>45,423</u>     | <u>52,373</u>       | <u>45,422</u>     |
|                              | <u>\$ 152,961</u>      | <u>\$ 146,212</u> | <u>\$ 153,910</u>   | <u>\$ 147,928</u> |

Investments:

The Fire Board has adopted an investment policy in accordance with Act 196, PA 1997, which authorizes the Fire Department to deposit and invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2) of 1943 PA 20 as amended.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of the State of Michigan or any of its potential subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - i. The purchase of securities on a when-issued or delayed delivery basis.
  - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2003 and 2002

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

- (h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 19967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.
- (j) The investment pools organized under the Local Government Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Fire Department's deposits and investments are in accordance with statutory authority.

NOTE 4 - RISK MANAGEMENT

The Ogemaw Fire Department is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks continue to be covered by insurance purchased from independent companies. Settled claims for these risks have not exceeded insurance coverage in any of the past three years.

NOTE 5 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Fire Department is required to implement this standard for the fiscal year ending December 31, 2004. The Fire Department has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

OTHER DATA

## REPORT ON OTHER DATA

November 22, 2004

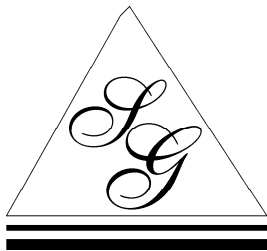
Our audits were conducted for the purpose of forming an opinion on the December 31, 2003 and 2002 general purpose financial statements taken as a whole. The other data, EXHIBIT E, is presented for purposes of additional analysis and is not a required part of the 2003 and 2002 general purpose financial statements of the Ogemaw Fire Department, Ogemaw County, Michigan. Such information has been subjected to the auditing procedures applied in the audits of the general purpose financial statements, and in our opinion is fairly stated in all material respects in relation to the 2003 and 2002 general purpose financial statements taken as a whole.

*Stephenson, Graub & Co., P.C.*

OGEMAW FIRE DEPARTMENT  
Ogemaw County, Michigan

DETAILS OF EXPENDITURES  
For the Years Ended December 31, 2003 and 2002

| <u>Expenditures</u>              | <u>2003</u>       | <u>2002</u>      |
|----------------------------------|-------------------|------------------|
| Current:                         |                   |                  |
| Officers wages                   | \$ 3,100          | \$ 3,100         |
| Training wages                   | 10,960            | 12,070           |
| Firemen's wages                  | 12,341            | 10,626           |
| Secretary wages                  | 500               | 500              |
| Part-time wages                  | 2,568             | 3,989            |
| Payroll taxes                    | 2,254             | 2,317            |
| Bank service charges             | 0                 | 40               |
| Office supplies                  | 211               | 739              |
| Postage                          | 37                | 71               |
| Gasoline and oil                 | 1,699             | 1,175            |
| Professional services            | 1,735             | 1,615            |
| Training and incentives          | 100               | 350              |
| Insurance - general              | 16,924            | 12,920           |
| Workmen's compensation insurance | 1,644             | 1,737            |
| Telephone                        | 812               | 773              |
| Heat and water                   | 1,779             | 1,293            |
| Lights                           | 1,046             | 1,181            |
| Maintenance - vehicles           | 5,204             | 6,683            |
| Maintenance - equipment          | 2,292             | 2,892            |
| Maintenance - hall               | 1,855             | 1,516            |
| Miscellaneous                    | <u>161</u>        | <u>531</u>       |
| Total current expenditures       | 67,222            | 66,118           |
| Capital outlay                   | <u>188,385</u>    | <u>11,710</u>    |
| Total Expenditures               | <u>\$ 255,607</u> | <u>\$ 77,828</u> |



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November 22, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Fire Administration Board  
Ogemaw Fire Department  
Ogemaw County, Michigan

We have audited the general purpose financial statements of the Ogemaw Fire Department, as of and for the year ended December 31, 2003, and have issued our report thereon dated November 22, 2004. In our report dated November 22, 2004, our opinion was qualified because the general purpose financial statements do not include the general fixed assets group of accounts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Ogemaw Fire Department's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

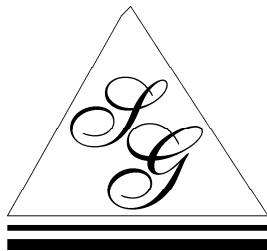
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ogemaw Fire Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Fire Administration Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*





# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA  
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Herman A Bertuleit, CPA

November 22, 2004

Members of the Fire Administration Board  
Ogemaw Fire Department  
Ogemaw County, Michigan

Dear Board Members:

We have audited the general purpose financial statements of the Ogemaw Fire Department for the year ended December 31, 2003, and have issued our report thereon dated November 22, 2004. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 13, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Ogemaw Fire Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Ogemaw Fire Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ogemaw Fire Department are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Ogemaw Fire Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ogemaw

Fire Department's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Ogemaw Fire Department, either individually or in the aggregate, indicate matters that could have a significant effect on the Ogemaw Fire Department's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ogemaw Fire Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

#### GASB 34 Implementation

##### New Financial Accounting Standards Affecting Governments

The format for governmental financial statements has been revised by the Governmental Accounting Standards Board (GASB), the organization responsible for promulgating accounting standards which governments must follow. The Statement, GASB Statement 34, requires these changes be implemented by all governmental units over the next several years. Significant changes from the current presentation include:

1. The addition of a letter describing management's analysis of the financial statements and current financial condition of the governmental unit.
2. The presentation of "Government Wide Financial Statements" on a full accrual accounting basis as opposed to the current "modified accrual basis".
3. The inclusion of "Individual and Combining Fund Financial Statements" presented on their existing basis of accounting including a reconciliation with the Government Wide Financial Statements.
4. The reporting of governmental activity expenditures net of "program revenues" to determine activity costs funded by public dollars (i.e. taxes, interest, etc.).
5. The requirement to report the value of infrastructure assets (i.e. road, bridges, etc.) as assets on the balance sheet of the governmental unit.

Members of the Fire Administration Board  
Ogemaw Fire Department  
November 22, 2004  
Page Three

6. The requirement to report depreciation on all fixed assets, including infrastructure assets and general fixed assets.
7. The requirement to report both the original adopted budget and the final budget in the Budget to Actual comparative operating financial statement.

If adopted, the Ogemaw Fire Department will need to implement these changes by the year ended December 31, 2004.

Alternative Option Available

Currently, the State of Michigan Department of Treasury has passed a policy to allow the following departures from the above standards without sanctions against the unit of government.

- Omission of Management's Discussion and Analysis
- Omission of Government Wide Financial Statements
- Omission of Infrastructure Asset Reporting

If units of government elect to omit the above listed items, a "qualified or adverse" independent auditors' opinion will be issued by the CPA firm on the financial statements. The effect of the qualification is expected to be minimal.

The new reporting standards have wide-sweeping implications in terms of identifying and accumulating information to comply with the standard. We would be happy to discuss with you the options available to the Ogemaw Fire Department and to assist in their implementation.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Fire Department, especially Todd Thompson.

This information is intended solely for the use of management, Fire Administration Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grunh & Co., P.C.*